

Module 5 – Introduction to Processes and Controls

Handout 2- Understanding Process Components

Agency XYZ is conducting its EAGLE Assessment and seeks to understand the following accounts: Payroll, Accounts Payable, Accounts Receivable, and Capital Assets. The agency would like to know the key processes and activities that could be included within the scope of assessment.

The following lists the Account, Processes as well as Key Activities for Agency XYZ's review.

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Payroll

Account

Payroll

Processes

- Setup of New Hire Masterfile
- Recording of time
- Calculation of payroll, taxes, and on costs
- Processing of payments
- Recording in General Ledger

Key Activities included:

Setup of New Hire Masterfile

- The new employee is approved by HR
- The new employee's information is entered into the employee master file within the payroll system by the payroll clerk
- The employee masterfile information is reviewed and approved by the payroll supervisor

Recording of Time

- The employee clocks his time and/or submits a time report, which is used to process the number of hours worked
- The employee's supervisor reviews and approves the timecard/time report.
- The payroll clerk enters the time into the payroll system

Calculation of Payroll

- Based on hours worked and employment agreements, the payroll is calculated by the payroll system. This includes the payment to the employee, any on-costs and taxes.

Processing of Payment

- Checks or electronic funds transfers are prepared based on the calculated payroll
- The Finance Department/Treasurer reviews and approves the release of the payments/checks

Recording to G/L

- Salary expenses and payments are recorded within the General Ledger

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Accounts Payable

Account

Accounts Payable

Processes

- Setup of New Vendor Masterfile
- Receive Invoice
- Three-way match
- Processing of payments
- Recording in General Ledger

Key Activities included:

Setup of New Vendor Masterfile

- The new vendor is approved by Procurement
- The new vendor's information is entered into the vendor masterfile within the Accounts Payable system by the Financial Accountant.
- The vendor masterfile information is reviewed and approved by the Finance Manager

Receive Invoice

- Invoice is received from Supplier and checked for completeness by the Accounts Payable clerk

Three Way Match

- Invoice is processed into the XX system which automatically matches it to the approved PO and Goods Receipt note(s).
- Variances are investigated (e.g., the invoice is forwarded to BU for approval if it is above approved PO order amount, or to the warehouse if there is a discrepancy in the quantity of goods received, or to the supplier if there is an error).
- The invoice is reprocessed by the AP clerk.

Processing of Payment

- Checks or electronic funds transfers are prepared based on the payment amount.
- The Finance Department/Treasurer reviews and approves the release of the payments/checks

Recording to G/L

- The AP and bank transactions are recorded within the General Ledger

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Accounts Receivable

Account

Account Receivable

Processes

- Setup of New Customer Masterfile
- Receive Customer Order
- Pick Goods and Deliver to customer
- Invoice Customer
- Receive and Process Payment
- Monitor and Follow Up on Outstanding Receivables
- Recording in General Ledger

Key Activities included:

Setup of New Customer Masterfile

- The new customer is approved by Sales and Credit teams (may include a background check on the customer)
- The new customer's information is entered into the customer masterfile within the AR system by the Credit Office
- The customer masterfile information is reviewed and approved by the Credit Manager

Receive Customer Order

- Customer Order is received by Sales
- Credit check performed automatically by XX system
- Check warehouse for availability of stock
- Process Customer Order

Pick Goods and Deliver to Customer

- Warehouse staff picks goods
- Warehouse supervisor checks delivery against picking slip
- Logistics delivers goods to customer
- Packing slip returned to company after being signed by customer to acknowledge receipt of goods.

Invoice Customer

- Invoice is processed into the XX system based on the completed sales order and customer masterfile data
- Invoice is mailed to customer

Receive and Process Customer Payment

- Customer payment is received
- Payment is matched to invoice and processed into Debtors system
- Variances are investigated with the customer

Monitor and Follow Up Outstanding Receivables

- Review of Aged Debtors Trial Balance to identify overdue payments
- Follow up with customer
- Process customer payments (refer above)

Recording in General Ledger

- The accounts receivable and bank transactions are recorded within the General Ledger

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Capital Assets

Account

Capital Assets

Processes

- Purchase New Asset
- Transfer Asset
- Dispose Asset
- Calculate Depreciation
- Perform Physical Verification of Capital Assets
- Reconcile Capital Asset Register and General Ledger

Key Activities included:

Purchase of New Asset

- Obtain approval to purchase new asset
- Purchase new asset
- Record new asset in Capital Asset Register (CAR) and General Ledger

Transfer Capital Asset

- Receive request to transfer capital asset from one Business Unit/Department to another
- Obtain approval for transfer
- Transfer asset
- Record Transfer in CAR and General Ledger (if applicable)

Dispose of Asset

- Receive request to dispose of Capital Asset
- Obtain approval for disposal
- Dispose of Asset
- Record Disposal in CAR and General Ledger
- Record receipt of cash in General Ledger (if applicable)

Calculate Depreciation

- Determine useful life of asset
- Determine scrap/disposal value of asset at end of useful life
- Determine depreciation rate
- Calculate depreciation (usually performed automatically in CAR)
- Record depreciation expense and accumulated depreciation in CAR and General Ledger

Perform Physical Verification of Capital Assets

- Physically Count Capital Assets
- Reconcile to CAR records
- Investigate discrepancies
- Update CAR and General Ledger for any changes

Reconciled CAR to General Ledger

- Prepare Capital Asset Reconciliation
- Investigate and resolve variances
- Approve Capital Asset Reconciliation